



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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Comptroller

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August 17, 2008

Eddie Hasan, Executive Director
MoKan-CCAC
4144 Lindell Blvd Ste 316
St. Louis, MO 63108

RE: Fiscal Monitoring Review of MoKan-CCAC, Community Development Block Grant
(CDBG), Contractors Assistance Program, Contract #07-90-61, CFDA #14.218
(Project #2008-CDA8)

Dear Mr. Hasan:

Enclosed is a report of our fiscal monitoring review of the MoKan-CCAC, Contractors Assistance Program, for the period January 1, 2007 through October 31, 2007. The scope of a fiscal monitoring review is substantially less than an audit, and as such, we do not express an opinion on the financial operations of MoKan-CCAC. Our fieldwork was completed on October 29, 2007.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with the City of St. Louis Community Development Administration (CDA) to provide fiscal monitoring to all federal grant sub-recipients.

If you have any questions, please contact me at (314) 622-4723.

Sincerely,

Mohammad H. Adil, CPA
Internal Audit Manager

cc: Lorna Alexander, Special Assistant for Development, CDA



CITY OF ST. LOUIS

*COMMUNITY DEVELOPMENT ADMINISTRATION
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)*

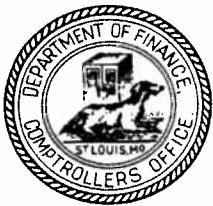
*MOKAN-CCAC
CONTRACTORS ASSISTANCE PROGRAM
CONTRACT #07-90-61
CFDA #14.218*

*FISCAL MONITORING REVIEW
JANUARY 1, 2007 THROUGH OCTOBER 31, 2007*

PROJECT #2008-CDA8

DATE ISSUED: AUGUST 17, 2008

*Prepared by:
The Internal Audit Section*



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HONORABLE DARLENE GREEN, COMPTROLLER

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COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
MOKAN-CCAC
CONTRACTORS ASSISTANCE PROGRAM
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INTRODUCTION

Background

Contract Name: MoKan - Contractors Assistance Program

Contract Number: 07-90-61

CFDA Number: 14.218

Review Period: January 1, 2007 through October 31, 2007

Contract Amount: \$135,000

Under the above contract, MoKan-CCAC's (Agency) primary function is to maximize opportunity for the participation of City's certified minority and women owned businesses in the construction industry. These activities focus primarily on the private sectors with additional support to public sector projects. This objective is accomplished through education and training; hands on technical assistance in the preparation of bonding insurance and loan applications and the provision of financial counseling. The Agency will assist the City through referrals on an "as needed" basis with companies wishing to be certified as a bonafide minority or women business through the City of St. Louis Airport Certificate and Compliance Section.

Purpose

The purpose of this fiscal monitoring review was to determine the Agency's compliance with federal (OMB Circular A-133), state and local City of St. Louis Community Development Administration (CDA) requirements for the period January 1, 2007 through October 31, 2007 and make recommendations for improvements where necessary.

Scope and Methodology

We made inquiries regarding the Agency's internal controls relating to the grant administered by the CDA, tested evidence supporting the reports the Agency submitted to CDA and performed other procedures considered necessary. Our fieldwork was completed on October 29, 2007.

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INTRODUCTION

Exit Conference

We held an exit conference with the management of the Agency on May 13, 2008 to discuss the observations and recommendations noted in the report.

Management's Response

Management's responses to the observations noted in the draft report were received on June 6, 2008 and have been incorporated into the report.

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CONCLUSION AND SUMMARY OF OBSERVATIONS

Conclusion

The Agency did not fully comply with federal (OMB Circular A-133), state and local CDBG requirements. (See Summary of Current Observations below.)

Status of Prior Observations

The Agency's most recently fiscal monitoring report dated January 30, 2007 contained the following observations:

1. Failure to file and make deposits for IRS form 941(\$81,082.96) (**Partially resolved. See current observation #1**)
2. Failure to file IRS Form 990 in a timely manner (\$7,979.53) (**Repeated. See current observation #1**)
3. Failure to maintain support documentation (\$1,366.77) (**Resolved**)
4. Failure to maintain adequate insurance (**Resolved**)
5. Failure to approve time reports (**Resolved**)

A-133 Status

According to a letter dated August 28, 2007 that was received from the Agency, it is not required to have an A-133 audit because it did not expend \$500,000 or more in federal funds in its fiscal year ended December 31, 2007.

Summary of Current Observations

We made recommendations for the following observations, which if implemented, could assist the Agency in complying with federal (OMB Circular A-133), state and local CDBG requirements:

1. Going Concern Issues
2. Inadequate Board Oversight
3. Quarterly Reports not Submitted Timely
4. Opportunity to Segregate Duties

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**DETAILED OBSERVATIONS, RECOMMENDATIONS,
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1. Going Concern Issues

Negative Working Capital (\$122,017.65)

The Agency is required to have a positive working capital to remain in business. Working capital, excess of current assets over current liabilities, is a measure of an organization's ability to realize assets and satisfy liabilities in the normal course of business. The Agency's balance sheet as of September 26, 2007 showed a negative working capital of \$122,017.65. The Agency does not have enough current assets to meet its current obligations. The Agency may become insolvent and may not be able to continue providing services to its clients.

Excess of Expenditures over Revenues (\$77,367)

The Agency's profit & loss statement for the period July 1, 2006 through July 1, 2007 an excess of expenditures over revenues by \$77,367. The Agency does not generate enough revenues to cover its expenses and may not be able meet the requirements of its contract with the Community Development Administration (CDA).

Unpaid IRS Form 941 Taxes (\$41,053.52)

Employers are required to file Employer's Quarterly Federal Tax Returns (IRS Form 941) with IRS to report payroll taxes withheld and paid. The taxes withheld are required to be paid to IRS by scheduled dates and the quarterly returns must be filed by the 15th day following the end of the quarter.

According to the Agency's most recently fiscal monitoring report dated January 30, 2007, as of November 6, 2006 the Agency owed IRS payroll taxes for \$81,082.96 for the calendar years 2002 through 2005. During the review period, Agency entered into an agreement with IRS to pay back the payroll taxes owed in installments of \$1,700 per month until the debt is paid off. As of October 31, 2007, the Agency has paid IRS \$40,029.44, leaving a balance of back taxes owed to IRS of \$41,053.52. **This amount, however, does not include interest IRS added to the outstanding balance since the date of the agreement.**

Failure to File IRS Form 990 in Timely Manner (\$8,699.53)

IRS regulation requires all 501(c) (3) non-profit organizations with gross receipts over \$25,000 to file an IRS Form 990 annually. This form is due on the 15th day, five months after the entity's end of fiscal year. Entities are also allowed to file two separate extensions, granting them an additional 3 months to file per extension. The Agency could be fined \$20 per day the form is late with a maximum of \$10,000 per year and could have its tax-exempt status revoked.

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1. Continued...

The Agency filed its calendar year 2006 IRS Form 990 on September 20, 2007. This form was due on May 15, 2007; however, the Agency filed an automatic 3-month extension, which extended the due date to August 15, 2007. The Agency did not file the additional extension, which resulted in the form being filed late by 36 days (August 16 through September 20). The Agency may be liable for a potential late filing penalty of \$720 (36 days x \$20)

As per the Agency's most recent fiscal monitoring report dated January 30, 2007, it owed IRS \$8,699.53 for the late filings of the Form 990 for previous years. This amount remains outstanding as of the date of this report. The total potential liability for the late filings of the IRS Form 990 is as follows:

Amount owed from previous years (See "Status of Prior Observation" on page 3)	\$7,979.53
Potential liability for the late filing of 990 for calendar year 2006 by 36 days	<u>720.00</u>
Total amount owed	<u>\$8,699.53</u>

Recommendation

We recommend the Agency:

1. Continue to work toward eliminating revenue deficit by generating additional revenues and reducing its liabilities to attain a positive working capital.
2. Continue to make its monthly payments to IRS until its outstanding payroll taxes and IRS Form 990 penalties are fully paid.
3. File IRS Forms 941 and 990 by the due dates.

Management's Response

The agency's balance sheet as 9-26-07 showed a negative working capital, that statement is incorrect. A CPA is being retained to work with our fiscal manager to correct the discrepancies and will continue on a quarterly basis to review the financial reports.

Mokan has retained a Tax CPA, Scarborough Tax Affairs for the purpose of filing timely 990 reports, she will work in conjunction with the Fiscal Manager.

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2. Inadequate Board Oversight

Board of Directors' (Board) oversight over The Agency's operations may ensure proper internal controls over the activities of the Agency.

Our review of the minutes of the Agency's Board meetings for the period April 2007 through July 2007, and the agenda of September 2007 meeting did not provide any evidence of the Board's review of the financial reports and grant expenditures.

The Board appeared to not aware of their oversight responsibility on the Agency's activities. The members of the Board may not be in position to provide useful advice to the Agency or be aware of the Agency financial position.

Recommendation

We recommend that the Board's meeting agenda should include a review of the Agency's financial statements and activities reports.

Management's Response

Mokan's Board has setup a finance committee and Ms. Annetta Vickers is the chair of the committee and has recommended a CPA firm to review Mokan's financial statements, we are presently negotiating for services with the company.

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3. Quarterly Reports not Submitted Timely

CDA contract agreement duly signed by the Agency requires that the monthly reports be submitted by the 10th of every month. The Agency submitted 3 out 4 reports due were submitted late by an average of 14 days. Late submission of monthly reports may cause a delay or suspension in the processing of reimbursement requests.

Recommendation

We recommend the Agency submit its monthly reports within the required time limit.

Management's Response

Mokan has met with the department heads and sent memos, stressing the importance of the quarterly reports being submitted in a timely manner. If the reports are submitted late, the responsible party will receive a written reprimand.

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4. Opportunity to Segregate Duties

Sound internal controls require that important financial functions be performed by different individuals. For example, the process of receiving cash, recording the receipt, depositing the monies, and performing bank reconciliation should be performed by separate individuals.

Based on our observation, the same individual is responsible for all the accounting functions. This is considered a control deficiency and any misappropriation or misuse of grant funds may not be detected in time.

Recommendation

We recommend that all accounting policies and procedures are followed, and that the Agency ensures that there is more than one person responsible for performing the accounting functions.

Management's Response

- *Mokan will separate the accounting duties.*
- *Administrative Asst. will stamp date/ log all checks in the system.*
- *Fiscal Manager will be responsible for putting checks in the system.*
- *Administrative Asst. or the Director will take checks to the bank for deposit*
- *Director Hasan will review bank statements.*
- *Fiscal Manager will reconcile all accounts.*
- *CPA will review accounting procedures and systems on a quarterly basis.*